



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR

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MARK J. SALADINO
TREASURER AND TAX COLLECTOR

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July 30, 2013

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TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino 
Treasurer and Tax Collector

SUBJECT: **NOTICE OF INTENT TO NEGOTIATE SOLE SOURCE AGREEMENT
EXTENSIONS TO AGREEMENTS NUMBER 75985 (WAUSAU FINANCIAL
SYSTEMS, INC.), 76070 (OPEX CORPORATION), AND 74507 (CORE
BUSINESS TECHNOLOGIES) FOR MAINTENANCE, SUPPORT, AND
PROFESSIONAL SERVICES FOR THE COUNTY OF LOS ANGELES
REMITTANCE PROCESSING, DOCUMENT MANAGEMENT, AND
AUTOMATED CASHIERING SYSTEM**

In accordance with Board policy requiring advance notification of prospective Sole Source Agreements, this letter is to inform you that the Treasurer and Tax Collector (TTC) intends to negotiate Sole Source Agreement extensions with Wausau Financial Systems, Inc. (Wausau), Opex Corporation (Opex), and CORE Business Technologies (CORE) for the provision of maintenance, support, and professional services for the Remittance Processing, Document Management, and Automated Cashiering Systems (System). The TTC has been notified by Wausau that several key components are nearing the end of their useful lives and that an upgrade is required due to the fact that Windows XP will not be supported after April 2014. Due to the interdependency of the System's components, the TTC discussed the need for upgrades with Opex and CORE and determined a complete System upgrade (estimated at approximately \$2 million) is necessary to maintain functionality. Total System replacement is estimated to cost between \$8 million and \$10 million; therefore, Sole Source Agreement extensions with the three contractors are being recommended.

Following the conclusion of negotiations, amendments to increase the respective agreement amounts to perform the upgrades and extend the agreements will be submitted to your Board for approval.

BACKGROUND

In addition to processing property tax payments, the TTC provides payment processing services for 20 clients including, but not limited to, Animal Care and Control, Superior Court, Public Works, Fire, and Public Health. In Fiscal Year (FY) 2011-2012, the System processed 4.9 million remittance payments for a total of \$14 billion. The System utilizes interdependent

components from the three contractors mentioned above to provide automated payment processing for payments that were mailed to the Los Angeles County (County) or made in person at a cashier's window. Payment processing is automated for the purpose of expediency, accuracy, and record keeping. A description of the services provided by each contractor and the current contract status for each is as follows:

- Wausau - maintains and supports the software and hardware associated with the Remittance Processing and Document Management functions. Remittance Processing functions include automated posting capabilities and compilation of daily bank deposits, while the Document Management component of the System supports the imaging of the payment instruments and provides a search engine to facilitate the archiving and research of these instruments.

Your Board approved the original Agreement with Wausau on June 6, 2000, and a successor Agreement (Number 75985) was approved on December 19, 2006. On May 19, 2009, your Board approved Amendment Number One to increase the maximum County obligation under the Agreement by \$1,173,000 to upgrade the System and obtain further maintenance, support, and professional services. On January 26, 2011, the TTC executed Amendment Number Two under its delegated authority to extend the Agreement for three years with an end date of January 31, 2014. Annual maintenance is approximately \$250,000 per year.

- Opex - maintains and supports peripheral devices associated with the Remittance Processing and Document Management functions (described above).

On April 3, 2007, your Board approved Contract Number 76070, a four-year contract with Opex, for continued maintenance and repair services for the TTC-owned mail processing equipment. On March 1, 2011, your Board approved a two-year extension with two optional one-year periods for continued maintenance and support services for the County-owned mail processing equipment with an end date of April 2, 2015. Annual maintenance is approximately \$70,000 per year.

- CORE - maintains and supports the Automated Cashiering functions, which utilize System information to process in-person payments, capture images for researching payments, perform online lookup services to permit the processing of payments for customers that do not have a remittance stub, and process credit card payments.

On June 10, 2003, your Board approved Agreement Number 74507, a five-year agreement with CORE, to replace and update the Automated Cashiering System. On May 11, 2010, your Board approved a two-year extension with two optional one-year periods with an end date of June 9, 2014. Annual maintenance is approximately \$22,000 per year.

ANALYSIS OF SYSTEM FUNCTIONALITY

The TTC had intended on releasing a competitive solicitation for a replacement system in 2007. The Department hired a consultant to analyze the System, review its existing functionality, compare it to other systems in the marketplace, and develop options and requirements for a potential System replacement. The consultant determined that the current System met the

TTC's requirements and was comparable to other systems in the marketplace. However, the consultant noted that some components of the System (at that time) were nearing the end of their useful lives and would need to be upgraded. Upon final analysis by the TTC, including a projected System replacement cost of \$8 million to \$10 million and the significant operational impact of a total System replacement, it was determined that upgrading the System would be the most cost-effective means of bringing the System into compliance and keep it functioning. These upgrades were completed in 2009 at a cost of approximately \$1.2 million.

In planning for the future replacement of the System, the TTC requested the establishment of a designation in our FY 2008-09 proposed budget. However, the Chief Executive Office (CEO) denied that request due to the economic downturn and the overall state of the County's budget. Since that time, the TTC's budget has been cut significantly (greater than 30 percent), and the TTC currently lacks the necessary fiscal resources to fund a replacement system.

CURRENT STATUS

In September 2012, Wausau informed the TTC that a few components, including the database for the Remittance Processing System, the storage for the Image Management System, and the existing version of Windows were nearing the end of their useful lives, and a System upgrade would again be necessary to maintain its functionality. Due to the interdependency of the System's components and the contractors involved in maintaining them, the TTC also discussed the potential for upgrades with Opex and CORE. Based on these discussions, it is estimated that the System could be upgraded and its functionality kept current through 2018 for approximately \$2 million.

RECOMMENDATION

The TTC is recommending Sole Source Agreement extensions for all three contractors for the following reasons:

- **Cost** - A new/replacement System is estimated to cost between \$8 million and \$10 million. Given the aforementioned budget curtailments to the TTC, the Department does not currently have the resources to purchase a new System at this time. Upgrading versus replacing the System proved to be a successful and cost-effective measure in the past and is again a viable solution. The necessary funding for an upgrade (approximately \$2 million) is available in the Department's FY 2013-14 budget.
- **Operational Impact** - A new contractor(s), unfamiliar with the TTC's business operations and requirements, would experience an extensive learning curve, which could negatively impact the TTC's current operation and ability to process payments.
- **Facilitation of a Future Competitive Solicitation** - Currently, the three Agreements are on separate timelines with different expiration dates (see Attachment I). The TTC intends to negotiate Sole Source Agreement extensions with all three contractors and align the Agreement expiration dates to January 2019. This will ensure the viability and functionality of the current System, allow the time necessary to evaluate all replacement options, and identify and set aside the necessary financial resources. To this end, the TTC has already worked with the CEO to establish an ongoing Designation Fund for a

System replacement. The tentative timeline for solicitation of a replacement system is as follows:

FY 2013-14	Release Request for Information (RFI) and update the previously developed RFP as necessary
FY 2014-15	Release RFP and evaluate proposals
FY 2015-16	Enter into contract negotiations with the highest ranked proposer and seek Board approval of contract
FY 2016-17	Implementation

Please note that the successful implementation of the milestones in the timeline above is contingent upon the TTC's ability to fund a replacement system. In the event that the TTC is unable to save for the entire replacement cost within the next three FYs, our proposal includes two additional one-year extensions. This will allow time for the TTC to save additional funds and/or for the CEO to identify funding for the unmet need.

IMPACT OF NOT UPGRADING

As stated previously, the System is used to process, in an extremely automated and efficient manner, approximately five million payments, totaling \$14 billion annually, for various County departments and related agencies. In addition to property tax payments, this includes payments for Animal Care and Control, Public Works, and the Superior Court (traffic citations).

The consequences of not continuing to maintain and upgrade the current System are very significant. The depositing of monies would slow, thereby decreasing available cash balances and decreasing interest earnings. The posting of payments to the appropriate accounts receivable systems would also slow, thereby impacting the ability of the TTC and the other departments to respond to constituent inquiries timely. As well, the TTC's comprehensive system of internal controls to prevent theft or misuse of funds would be compromised.

SOLE SOURCE JUSTIFICATION

In addition to the reasons set out in the Recommendation Section of this memorandum, the TTC believes the Sole Source Agreement extensions are also supported by the following:

Wausau

The software utilized by the System is proprietary to Wausau. Therefore, Wausau is the only contractor that can provide comprehensive maintenance, support, and professional services for this System. Additionally, Wausau is uniquely qualified to provide these services because of its knowledge of how the System interacts with the TTC's complex business operations.

Opex

Opex equipment is integrated as the mechanical backbone of the System and assists with the processing of millions of documents received each year as part of the Remittance Processing operations. Due to the proprietary and exclusive nature of the Opex equipment, Opex is the only source that can provide comprehensive maintenance and support services for its equipment.

CORE

The requisite licensing, maintenance, and support required to replace the Automated Cashiering function would be cost prohibitive and would require a considerable amount of analysis and development time to identify and replicate. A new contractor, unfamiliar with the TTC's business operations and requirements, would experience an extensive learning curve with the setup and integration into the current Automated Cashiering functionality, while potentially negatively impacting the TTC's current operation.

The Chief Information Office has reviewed and concurs with the sole source justification for all three contractors. In addition, the TTC briefed this item at the Operations Cluster meeting on July 25, 2013.

CONCLUSION

The TTC intends to negotiate Sole Source Agreement extensions with all three contractors and correlate the end dates of all Agreements, which are currently on different timelines, to end in early 2019 (see Attachment I). Upon successful negotiations, the TTC intends to return before your Board with a recommendation to extend Wausau in September 2013, a recommendation to extend CORE in late 2013, and a recommendation to extend Opex in late 2014.

Unless otherwise directed by your Board within ten business days from the date of this notification, we will proceed with Sole Source Agreement extension negotiations.

If you have any questions or require additional information, please contact me or your staff may contact Keith Knox, Assistant Treasurer and Tax Collector, at (213) 974-0703.

MJS:KK:SP:VMA:lc

Notice of Intent - Wausau - Final 7-30-13 JK_KK_vma

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
Chief Information Office
County Counsel

**COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR
REMITTANCE PROCESSING, DOCUMENT MANAGEMENT, AND AUTOMATED CASHIERING
Current Agreements Expirations and Expected Extensions**

Contract	2014	2015	2016	2017	2018	2019
Wausau Financial Systems, Inc. (Contract # 75985)						
Core Business Technologies (Contract # 74507)						
Opex Corporation (Contract # 76070)						

January 31, 2014

June 9, 2014

April 2, 2015

January 31, 2019

Green - Current Contract Expiration
Blue - Targeted Extension Date